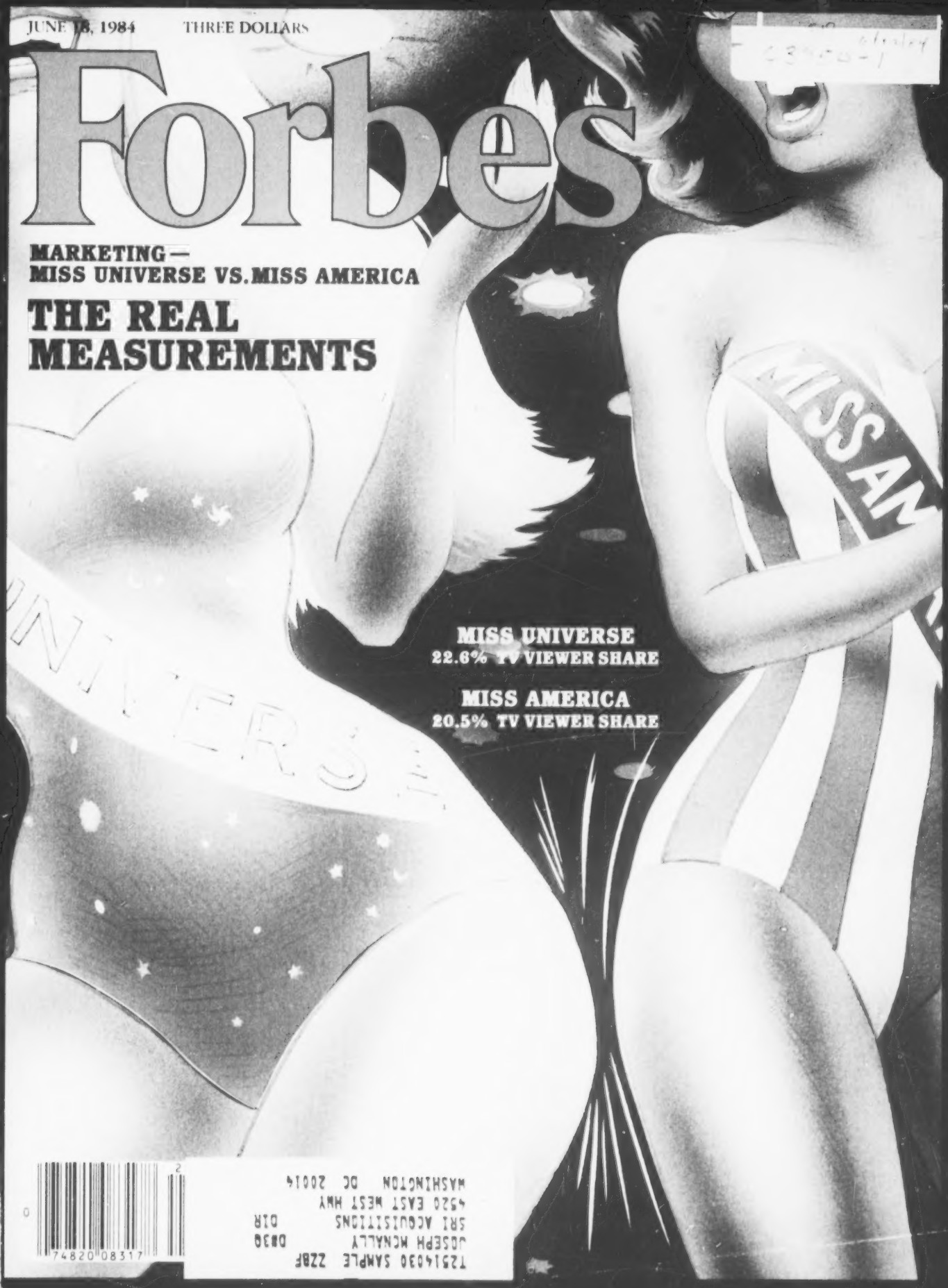
JUNE 18, 1984 THREE DOLLARS

Forbes

MARKETING—
MISS UNIVERSE VS. MISS AMERICA

THE REAL MEASUREMENTS



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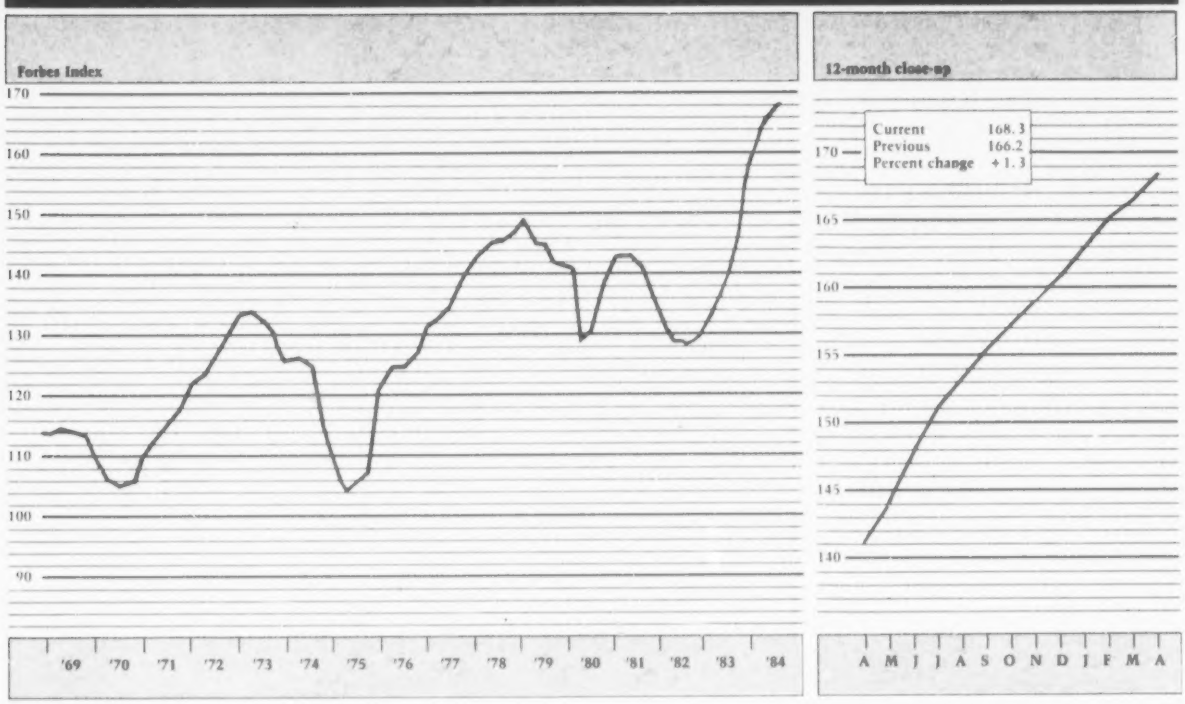
The Forbes Index



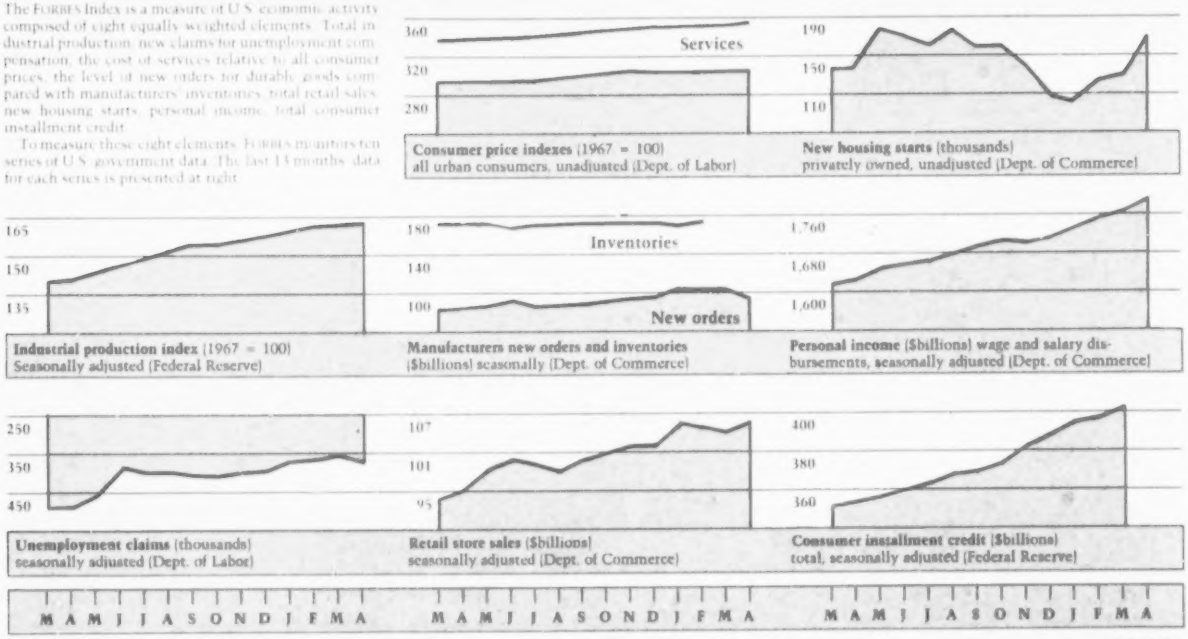
Quickening pace. Just when the recovery seemed to be leveling off, the Forbes Index, with a 1.3% gain in the latest reporting period, recorded its sharpest upward leap since early in the year. There were significant gains in several Index components. Yet this is not a clear signal that economic expansion is out of control. A sign of moderation: Manufacturers' new orders show a 6.4% drop.

New housing starts, 23.7% higher than they were in March, hit a 12-month high in April. Another strong showing came from retail sales, which registered a 2.9% month-to-month advance and stand some 11.5% higher than they were one year ago at the same time. Meanwhile, there were monthly increases of 1.2% for personal income and 1.4% for industrial production.

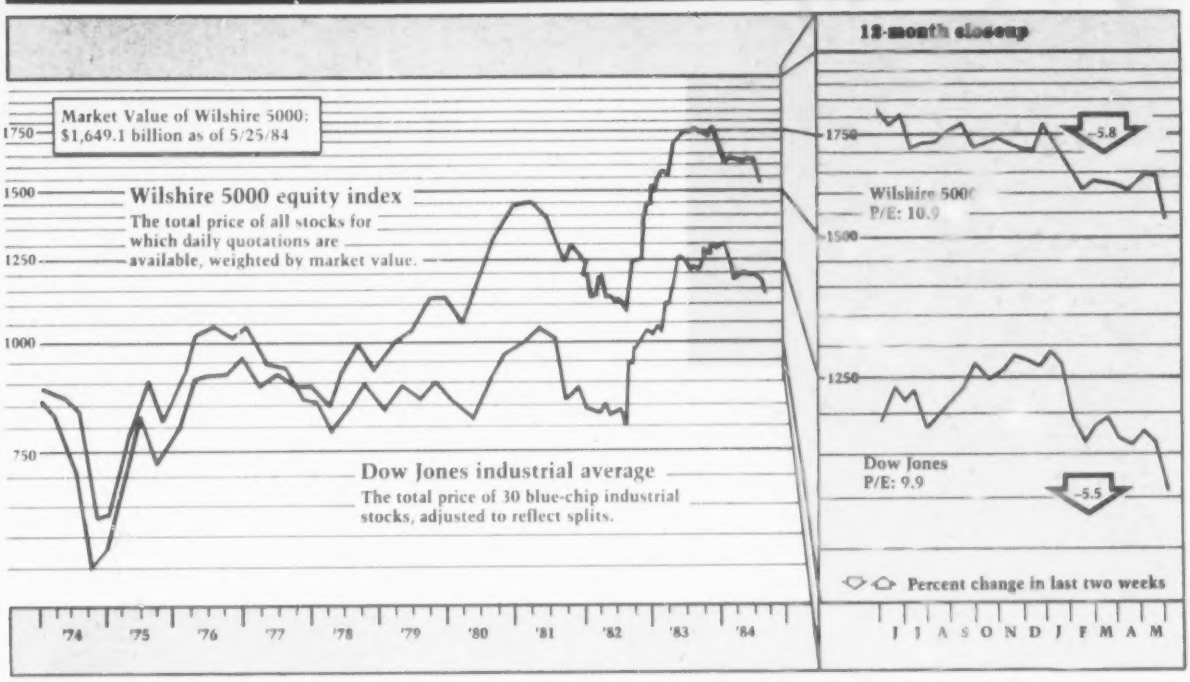
The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements. Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 13 months' data for each series is presented at right.



The Forbes/Wilshire 5000 Review



Less than a 10. The price/earnings ratio on the Dow industrials has fallen below 10 for the first time in 18 months. Investors are nervous because of rising interest rates and rumors of trouble at money center banks. During the last two weeks that concern sent the Dow down by 5.5%. Technicians also see a recent intraday drop below the 1100 level as a troubling sign.

Other indexes are not performing well, either. The NYSE dropped 5.5% and the Amex fell 6.1% over the last two weeks. The early May rebound in over-the-counter issues, what's more, was clearly short-lived. Now NASDAQ shares are leading the market down, with a 6.9% two-week decline. The 5,600-stock Wilshire index shows that the overall market was off some 5.8% in this period. In the past year the Wilshire has dropped by 12.1%, compared with a 24.4% loss for NASDAQ issues.

If there's any good news here, it is that stocks now look much cheaper than they did one year ago. The Forbes 500 trades at 7.8 times estimated 1984 earnings and 6.3 times estimated 1985 earnings. Multiples have not been this low since the bull market began in August of 1982. If corporate performance is unable to match analyst estimates, however, investors may have to wait a long time for another rally.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	–5.8	–5.5	–5.5	–5.5	–6.1	–6.9
in last 52 weeks	–5.5	–5.5	–6.1	–5.6	–6.0	–4.3

Stock performance based on six key investor yardsticks

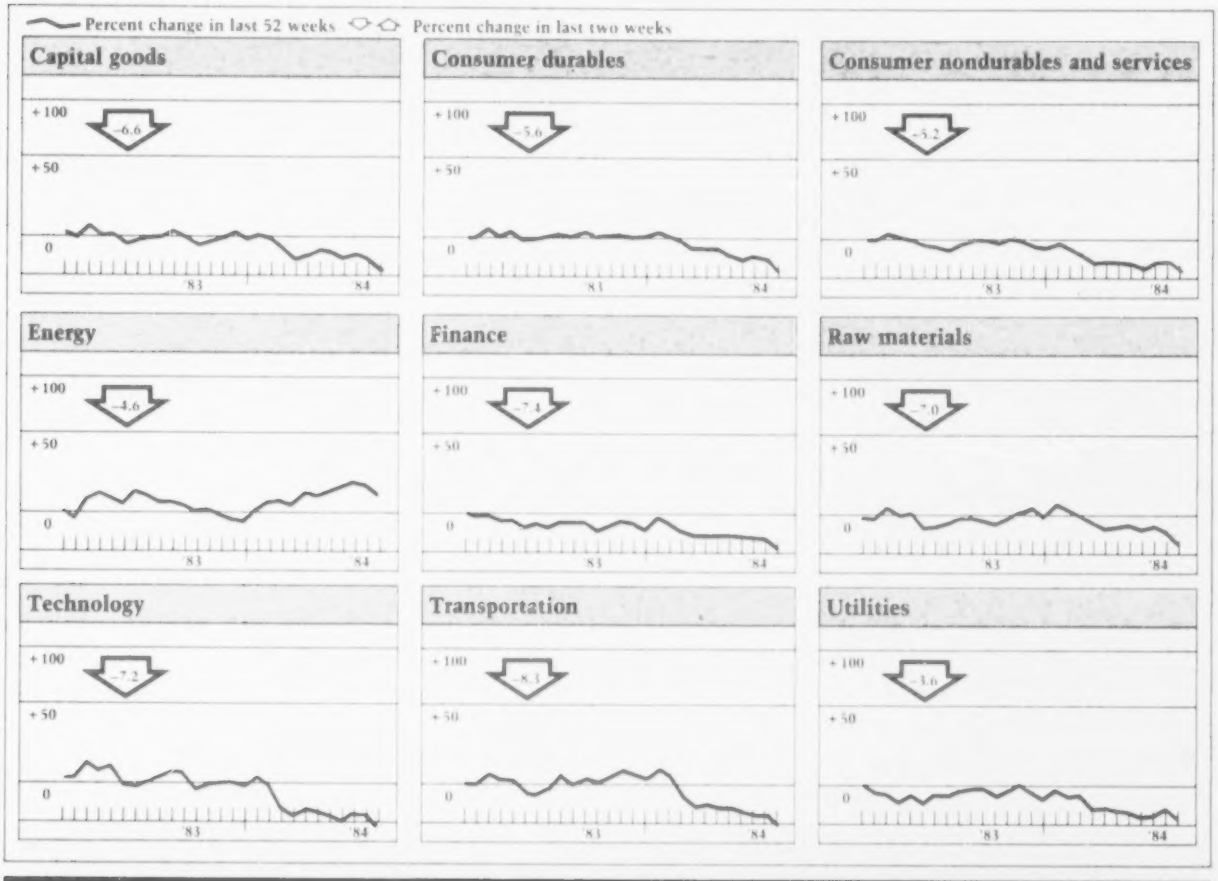
Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	–5.9	–4.7	–7.2	–2.1	–4.9	–2.1	–2.2	–4.3	–4.0	–2.3	–4.0	–4.9
in last 52 weeks	–11.8	–11.0	–19.3	0.2	–24.4	–7.8	–0.1	–12.7	–15.4	–0.5	–7.5	–16.2

[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 5/24/84. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Low finance. Although all nine sectors suffered significant losses for the two-week period, the finance sector, off 7.4%, attracted the most investor concern. The well-publicized troubles at Continental Illinois and apparently unsubstantiated rumors about other large banks drove dozens of bank stocks to 52-week lows. If there was any consolation for the banks, it was that transportation shares performed slightly worse than the finance group, dropping 8.3% over the same stretch. Railroad stocks were particularly weak. Meanwhile, the technology group, with a 7.2% drop, continued to suffer major losses. These stocks are off more than 20% from their levels of a year ago. The most resilient group during the last ten trading days was utility stocks, down only 3.6%.



What The Analysts Think

The slashing continues. Except for a minor increase for the consumer durables sector, Wall Street analysts continue to lower their earlier forecasts for 1984 earnings. Once again, finance shares show the largest downward revision. However, even with the latest cuts, analysts still expect significant earnings growth in fiscal 1984 and 1985.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.69	11.5
1984 estimates	4.17	7.8
1985 estimates	5.06	6.3

Rank based on change in estimate	Sector	Estimated 1984 EPS	% change in 1984 estimate in 2 weeks	in 4 weeks
1	Consumer durables	$3.27	0.09%	0.78%
2	Utilities	3.59	-0.22	-0.09
3	Raw materials	3.34	-0.47	-0.82
4	Energy	2.81	-0.56	-2.12
5	Consumer nondurables	2.60	-1.02	-1.59
6	Technology	2.02	-1.66	-2.46
7	Capital goods	2.42	-1.95	-3.59
8	Transportation	2.71	-2.38	-2.64
9	Finance	3.86	-2.92	-4.38

Earnings projections are equal-weighted consensus estimates from over 1,800 security analysts. Forecasts for the 9 Wilshire sectors are limited to firms with 3 or more estimates, with a mean estimate greater than $0.50. Data are compiled and updated weekly by Zacks Investment Research, a Chicago-based quantitative consulting firm.

Note: All data for periods ending 5/24/84. Prepared by Wilshire Associates, Santa Monica, Calif., Zacks Investment Research, Inc., Chicago, Ill.

It can be embarrassing to admit that a company is pressed for cash. That's why many firms keep paying shareholders even though they need to hold on to the money.

High-risk dividends

By Steve Kichen

THERE'S AN UNWRITTEN RULE on Wall Street that companies will, eventually, share their profits by sending out dividend checks. Of course, there are plenty of outfits that don't pay dividends, but they fall into three broad categories: young growth companies plowing back every penny into an expanding business; firms in serious financial difficulty; and a small number of well-established but maverick corporations such as Teledyne, Crown Cork & Seal and Tandy Corp. that have never given shareholders a piece of their profits.

Among the more than 2,000 companies that do pay common stock dividends, there are some that continue to dole out more than they can rightfully afford. Charter Co., for example, which recently filed for reorganization, maintained its 25-cent quarterly dividend to the bitter end. During the last 12 months, it paid out more than $16 million to shareholders, even though the firm was in a very tight cash flow situation *(see page 123)*. The $16 million alone didn't make the difference between solvency and bankruptcy, but Charter might have obtained more time from creditors had it eliminated payouts.

Patrick McDonnell

By maintaining a dividend too long, a firm may make its uphill battle that much harder. Ford, for example, paid out $144 million in dividends in 1981, a year it lost over $1 billion. In 1978 Chrysler paid $54 million. The next year it lost more than $1 billion.

Corporate dividend committees must worry about cash flow requirements, the needs of shareholders dependent on dividend income, and their company's image on Wall Street. Big institutions tend to have more loyalty toward companies with stable and growing dividend policies than those with erratic payouts.

We recognize that mathematics alone won't provide the final answer to whether a company should be paying a dividend. But a combination of computer screens offers an interesting analysis of companies with generous dividend policies.

Since Charter is fresh in investors' memories, we checked the records and discovered that earnings as reported in Value Line exceeded dividends in only three of the last five years. Meanwhile, over that last half-decade the company's dividends grew at an average annual rate of 47.5%, while its earnings fell at a 0.5% rate.

How many firms show similar patterns? To find out, we asked our trusty computers to isolate companies with negative or negligible five-year earnings growth rates and positive five-year dividend growth rates. Then we limited our list to firms paying out more than they earned over the last 12 months. To refine our search further, we eliminated firms whose debt as a percentage of equity is less than 20% and annual revenues

Should these companies be paying dividends?

In the past five years these 27 firms handed shareholders juicy dividend checks. But payouts grew faster than earnings. Worse, for the most recent 12 months, dividends exceeded profits. Many of these stocks sell near their 52-week lows. Some sport high yields—a sign that Wall Street worries about dividend cuts.

Company/*business*	5-year growth rates dividends	earnings	Indicated dividend	Yield	Latest 12-month EPS	Stock price recent	52-week range	Sales ($ mils)	Current ratio	Debt/ equity
Allegheny Intl *multicompany*	2%	–1%	$1.40	6.1%	$0.46	22⅞	36½–22¼	$2,347.9	1.46	78%
Amfac *food processing*	7	–1	1.44	6.1	–4.67	23¾	31⅜–23¾	2,253.1	1.77	79
Baker Intl *oilfield equip and svcs*	38	0	0.92	4.4	–0.83	21	26⅛–16½	1,837.6	2.94	51
Brockway *packaging*	5	–19	1.32	8.2	0.43	16¼	19 –14⅜	828.7	1.76	41

Sources: Disclosure II Data on Diskette via Micro/Scan from ISYS Corp.; Wilshire Associates; Forbes

Statistical Spotlight

are below $250 million.

We are not saying that any of the 27 corporations in the accompanying table are about to follow in the footsteps of Charter Co. But surely there are several nervous financial officers at these firms who wonder how much longer their companies can continue without a dividend cut. Total Petroleum, for example, had a net loss $82 million over the last three fiscal years, yet its dividend is costing the firm $5 million a year.

Almost half the companies in our table are in capital-intensive and energy-related areas. They want to ride out the hard times in their industries without giving up their dividends. Some, like Bucyrus-Erie, have already reduced their dividend from 22 cents a quarter to the current 11 cents.

But if these firms do trim payouts, don't expect a collapse in share prices. Many of the stocks on our table are selling close to their 52-week lows, so the threat of bad news may have been discounted. The market, in fact, often responds positively to an announcement of corporate belt-tightening.

Contrarians think that way, which is why they may see more buys than sells on this list. A risky strategy, to be sure, but this much is certain: Something has to change. These companies can't continue their present generosity unless earnings improve. ■

Should these companies be paying dividends?

Company/*business*	5-year growth rates dividends	earnings	Indicated dividend	Yield	Latest 12-month EPS	Stock price recent	Stock price 52-week range	Sales ($ mils)	Current ratio	Debt/ equity
Bucyrus-Erie* *construction equip*	4%	–13%	$0.44	3.1%	$–6.45	14¼	19¼–13¾	$ 687.3	1.83	39%
Cincinnati Milacron *machine tools*	18	0	0.72	2.8	–0.16	25⅜	39 –24½	559.0	2.07	32
Copperweld *steel*	10	0	0.58	3.0	–1.74	19¼	23¼–15	325.5	1.86	55
Crane *building materials*	2	–1	1.60	4.6	–1.91	35	40¾–26½	1,126.4	2.13	50
Crown Central Petroleum *oil refining and marketing*	37	–33	0.80	4.0	–0.09	19⅞	30 –17½	1,674.2	1.10	48
Diamond Shamrock *oil and gas, resources*	5	–1	1.76	8.3	–0.40	21⅛	26⅝–18	4,026.1	1.38	66
Dresser Inds *oilfield equip*	13	0	0.80	3.6	0.27	22	25½–17	3,473.4	2.86	24
Enserch *natural gas*	4	–10	1.60	7.8	1.34	20⅝	26¼–18⅞	3,502.4	1.13	65
Fluor *construction, resources*	15	–7	0.80	4.2	0.48	18⅞	23⅜–16⅛	5,300.5	1.05	41
Fremont General *insurance*	15	–57	0.48	3.6	–0.84	13½	30¼–10⅞	534.0	0.47	42
Gelco *leases vehicles, containers*	19	0	0.56	3.7	–0.46	15	23¼–14½	938.7	2.36	NM
Hughes Tool *oilfield equip and svcs*	27	0	0.84	4.7	–1.92	17⅞	24⅞–17	1,157.3	3.11	42
Midland-Ross *metal fabricating*	3	–1	1.00	4.7	0.53	21½	25⅛–16¾	755.2	1.93	58
Nicor *natural gas utility*	5	–16	3.04	11.2	1.79	27¼	34½–24¼	2,236.8	0.65	42
Occidental Petroleum *oil and gas, food processing*	17	0	2.50	7.2	1.06	34½	35¾–22	19,115.7	1.03	58
Pacific Gamble Robinson *food retailing, wholesaling*	4	–3	1.40	5.8	1.01	24	26 –20¾	833.2	1.77	51
Parker Drilling *oilfield svcs*	24	0	0.16	1.4	–1.57	11⅛	13¾– 8½	348.9	3.88	85
Smith Intl *oilfield equip*	17	–1	0.96	5.0	–3.90	19¼	28⅛–17	697.0	2.11	45
AE Staley Manufacturing *food processing*	1	–6	0.80	4.0	0.48	20	33⅜–18½	1,679.4	1.92	36
Stauffer Chemical *chemicals*	9	0	1.44	7.9	–0.27	18¼	31¾–17½	941.2	2.12	32
Storer Communications *broadcasting*	7	–13	0.40	1.1	–2.63	35	37¾–28½	458.9	0.75	175
Sybron *health care products*	4	–20	1.08	6.2	–2.74	17½	29⅛–17⅜	554.6	2.45	49
Total Petroleum North Am *integrated oil*	11	–1	0.24	2.2	–0.23	11⅛	14⅜– 8⅛	2,081.9	1.02	110

*To change to holding company, Becor Western. NM: Not meaningful.

Sources: Disclosure II Data on Diskette via Micro Scan from ISYS Corp.; Wilshire Associates; Forbes